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### **Corus Auction Promises Property 'Mark'**

By Lingling Wei and Anton Troianovski

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About 10 investors are expected to submit bids to the Federal Deposit Insurance Corp. by Friday for \$5 billion in condominium loans and other property held by the failed Corus Bank, in a key test of U.S. commercial real-estate values.

The government-run auction, with loans backed by more than 100 real-estate developments, is the largest bulk sale of commercial-property assets since the financial crisis erupted. Bidders are looking at some of the highest-profile condo projects in the U.S., scattered from the waterfront Paramount Bay in Miami to Juhl in downtown Las Vegas.

Among the real-estate investors jockeying for what is left of Corus, which was seized Sept. 11, are a joint venture that includes Related Cos. and Lubert-Adler Partners LP; a team of Miami developer Crescent Heights and Dallas private-equity firm Lone Star Funds; Starwood Capital Group; and an investor group led by Colony Capital LLC and iStar Financial Inc., according to people familiar with the situation. Representatives for the investor groups declined to comment.

Among the condo projects backed by loans included in the government's auction of Corus Bank's commercial-property assets are, from top: the high-rise Concerto development in Los Angeles; the Allure Waikiki; and Juhl in downtown Las Vegas. The portfolio holds \$5 billion in loans.

"We are offering specialized investors an opportunity to purchase an equity stake" in up to \$5 billion of Corus's loans, an FDIC spokesman said. "The more that the FDIC can obtain for the overall portfolio, the more we can recoup on behalf of the creditors and our deposit insurance fund."

Such distressed real-estate sales were common in the wake of the real-estate collapse of the early 1990s, generating fortunes for savvy buyers as the market recovered and property values soared. Part of the problem today has been that few properties have been sold, making it difficult for lenders to value portfolios.

Experts following the Corus auction predict that bids will range from 30 cents on the dollar for non-performing loans to 80 cents on the dollar for loans where the borrower is current on payments. The winning bid promises to be scrutinized by lenders across the U.S., many of which have been struggling with the valuations on thousands of condo projects and other commercial developments now in trouble.

The Corus auction "is going to create a new mark," says Norman Radow, chief executive of Radco Cos., an Atlanta developer specializing in distressed condo projects across the U.S.

The pace of distressed-asset auctions by the FDIC and other sellers is expected to accelerate. So far this year, 94 U.S. banks have failed, and others are in critical condition. Meanwhile, a record amount of than \$800 billion in commercial mortgages are expected to come due in the next three years.

The winning bidder for Corus's loans is likely to try to foreclose on properties that are in default or cut deals with their developers. One potential strategy for squeezing profits from the loans is to buy them at 40 cents on the dollar, and then try to sell them back to developers for 80 cents on the dollar.

Some Corus borrowers have approached the FDIC for a chance to bid on their loans, according to people familiar with the process. The agency rebuffed those efforts, saying it is willing to sell only the whole portfolio.

That stance has sparked criticism by some borrowers who are worried the winning bidder could be a competing developer seeking to take over their projects. The winning bidder "may play hardball and put us in default," said Sonny Astani, who has a \$190 million loan with Corus for a high-rise condominium development called Concerto in Los Angeles.

The Corus transaction is being structured as a partnership between the agency and winning bidder. The FDIC will hold a 60% stake and provide financing, according to people familiar with the matter. While seven other FDIC deals since 2008 have had similar partnership structures, the Corus deal is by far the largest. A similar arrangement was made in last week's sale of \$1.3 billion in residential mortgages to a venture between the FDIC and Residential Credit Solutions Inc., these people said.

The public-private partnership structure is modeled on about 70 such deals pioneered by Resolution Trust Corp., a federal agency formed to clean up the savings-and-loan mess of the late 1980s and early 1990s. Rising property values in the mid- and late-1990s enabled the RTC to reduce taxpayer losses.

Still, the partnerships expose the U.S. to more financial risk than it might face by selling assets completely to private investors. The Corus auction also is complicated by an oversupply of condos in some of the same states where Corus concentrated its lending, such as Florida, California and Nevada.

In most of the FDIC deals involving failed banks during the current mess, the agency has lined up buyers to take over loans, deposits, branches and most other assets. For some failed banks like Corus, the FDIC decided to separately sell some hard-to-value assets. When Corus was seized, another Chicago bank, MB Financial Inc., agreed to assume 11 branches and about \$6.6 billion in deposits from Corus. The FDIC has estimated that the Corus failure will cost its insurance fund about \$1.7 billion.

—Nick Timiraos contributed to this article.